



# General Certificate of Education

## Accounting 5121

### *ACC3 Financial Accounting: Determination of Income*

# Mark Scheme

## *2005 examination – June series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

**June 2005**

**ACC3**

## **MARK SCHEME**

### **INSTRUCTIONS TO EXAMINERS**

You should remember that your marking standards should reflect the levels of performance of candidates, mainly 17 years old, writing under examination conditions.

#### **Positive Marking**

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

#### **Mark Range**

You should use the whole mark range available in the mark scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.

#### **Alternative Answers / Layout**

The answers given in the mark scheme are not exhaustive and other answers may be valid. If this occurs, examiners should refer to their Team Leader for guidance. Similarly, candidates may set out their accounts in either a vertical or horizontal format. Both methods are acceptable.

#### **Own Figure Rule**

In cases where candidates are required to make calculations, arithmetic errors can be made so that the final or intermediate stages are incorrect. To avoid a candidate being penalised repeatedly for an initial error, candidates can be awarded marks where they have used the correct method with their own (incorrect) figures. Examiners are asked to annotate a script with **OF** where marks have been allocated on this basis. **OF** always makes the assumption that there are no extraneous items. Similarly, **OF** marks can be awarded where candidates make correct conclusions or inferences from their incorrect calculations.

#### **Quality of Written Communication**

Once the whole script has been marked the work of the candidate should be assessed for the Quality of Written Communication, using the criteria at the end of the mark scheme. The mark should be shown separately on the candidate's script.

1

Total for this question: 25 marks

**REQUIRED**

- (a) Prepare a trading and profit and loss account for the year ended 31 March 2005.

<b>Rachel Sorcim</b>			
<b>Trading and Profit and Loss Account for the year ended 31 March 2005 (1)</b>			
	£		£
Sales			81 643 (1)
Less cost of sales			
Stock	1 487 (1)		
Purchases W <sub>1</sub>	37 442 (2)		
	38 929		
Stock	1 638 (1)	37 291	
Gross profit		44 352 (1) OF	
Provision for doubtful debts W <sub>2</sub>		32 (3)	
		44 384	
Less expenses			
Wages W <sub>3</sub>	21 759 (2)		
Rent, rates & insurances W <sub>4</sub>	4 844 (2)		
General expenses	16 281 (1)		
Bad debts W <sub>5</sub>	49 (2)		
Depreciation – Premises	1 400 (1)		
Equipment	2 294 (1)	46 627	
Net loss		2 243 (1) correct figure	

W <sub>1</sub> 38 642 (1)	W <sub>2</sub> 100 (1)	W <sub>3</sub> 21 347 (1)	W <sub>4</sub> 4 990 (1)	W <sub>5</sub> 137 (1)
(1 200) (1)	68 (2)	412 (1)	(146) (1)	(88) (1)

**20 marks**

- (b) Prepare an extract from the balance sheet as at 31 March 2005 showing the capital section only.

	£
Capital	86 048 (1)
Less net loss	2 243 (1) OF
	83 805
W <sub>6</sub> 16 500 (1) Less drawings W <sub>6</sub>	17 700 (2)
1 200 (1)	66 105 (1) OF

**5 marks**

2

**Total for this question: 6 marks**

Dimitri sells electrical goods. At his financial year end, he is unsure how to value an electric kettle that he has in stock.

The kettle cost £18. It will sell for £31.

Before it can be sold, the kettle requires a repair which will cost £15.

**REQUIRED**

- (a) Calculate the value of the kettle to be included as part of Dimitri's closing stock.

The kettle should be valued at **£16 (3)**    **accept £18 (1)**

*Workings*

$$31 (1) - 15 (1) = 16 (1)$$

**3 marks**

- (b) Complete the following sentences.

Stock should be valued at **cost (1)**  
or **net realisable value (1)** whichever is lower.

This is an example of using the **prudence (1)** concept.

**3 marks**

3

Total for this question: 13 marks

Brendan Murphy runs a manufacturing business. Finished goods are transferred from the manufacturing account to the trading account at cost plus 40%.

The following extracts are taken from the two most recent balance sheets.

Balance sheet	at 31 March 2004		at 31 March 2005	
	£	£	£	£
Stocks – Raw materials		12 468		10 980
Work in progress		8 647		9 946
Finished goods	29 876		31 906	
Less provision for unrealised profit	8 536		?	
		21 340		?

**REQUIRED**

(a) Complete the balance sheet extract, having calculated the following.

- The provision for unrealised profit to be included in the balance sheet extract at 31 March 2005.
- The cost of the closing stock of finished goods at 31 March 2005.

**Balance sheet extract at 31 March 2005**

	£	£
Stocks – Finished goods	31 906	
Less provision for unrealised profit	9 116 (3)	
Cost price of finished goods		22 790 (3)

**6 marks**

<i>Workings</i>	<b>31 906 (1) ÷ 1.4 (1)</b>	<b>= 22 790 (1)</b>	
			<b>or</b>
	<b>31 906 (1) x 40/140 (1)</b>	<b>= 9 116 (1)</b>	
			<b>31 906 (1)</b>
			<b>22 790 (1)</b>
			<b><u>9 116 (1)</u></b>

(b) Calculate the provision for unrealised profit to be shown in the profit and loss account for the year ended 31 March 2005.

The profit and loss account entry is **£580 (3) OF**

**3 marks**

*Workings* **9116 (1) OF – 8536 (1) or (0) = 580 (1) OF**

(c) Outline **two** reasons why Brendan transfers goods to the trading account at cost plus a profit.

**Reason 1 More realistic value (1) goods valued at ‘bought in’ prices (2)**

**max 2 marks**

**Reason 2 Shows that factory is contributing (1) to overall profitability of the business (1).**

**Other valid reasons acceptable**

**2 marks**

**REQUIRED**

- (a) Prepare a corrected balance sheet from the information given.

**C Breeze Ltd**  
**Balance Sheet at 31 December 2004 (1)**

	£ 000		£ 000		£ 000	
<b>Fixed assets</b>	<u>1784</u>	(1)	<u>861</u>	(1)	923	(1)
<b>Current assets</b>						
<b>Stock</b>			461	(1)		
<b>Trade debtors</b>			271	(1)		
<b>Prepayments</b>			13	(1)		
<b>Bank</b>			<u>184</u>	(1)		
			929			
<b>Less current liabilities</b>						
<b>Trade creditors</b>	156	(1)				
<b>Corporation tax</b>	72	(1)				
<b>Proposed dividend</b>	<u>18</u>	(1)	<u>246</u>		<u>683</u>	
					1606	
<b>Less long term liabilities</b>						
<b>6% debentures</b>					<u>300</u>	(1)
					<u>1306</u>	
<b>Capital and reserves</b>						
<b>Ordinary shares</b>					350	(1)
<b>Share premium account</b>					450	(1)
<b>Revaluation reserve</b>					200	(1)
<b>Profit and loss account</b>					<u>306</u>	(1)
					<u>1306</u>	

16 marks

- (b) Give an example of a capital reserve and a revenue reserve. Explain
- two**
- differences between capital reserves and revenue reserves.

An example of a capital reserve is **Revaluation reserve or share premium account** 1 mark

An example of a revenue reserve is **Profit and loss account** 1 mark

**Capital reserves are derived from 'non-normal' activities (1)**

**Revenue reserves are derived from normal trading activities (1)**

**Capital reserves cannot be used for dividend purposes (1)**

**Revenue reserves can be used for dividends (1)**

4 marks

**(4)**

(c) The directors of C Breeze Ltd wish to raise additional capital. Draft a brief report discussing whether they should issue more ordinary shares or more 6% debentures.

**To** Directors of C Breeze Ltd  
**From** A candidate  
**Date** As examination  
**Subject** Advice on issuing ordinary shares or debentures

(report headings: 1 mark)

**Ordinary share issue**

**Advantages (max 3)**

- Permanent capital (0-2)
- Can vary dividend (1) according to profit level (1)
- May dilute ownership (0-2)

**Disadvantages (max 3)**

- May dilute ownership (0-2)
- More voting power (1) – possible takeover threat (1)

only once

max 4 marks

**Debenture issue**

**Advantages (max 3)**

- Long term loan capital (0-2)
- May be redeemed in future (0-2)
- No dilution of power (0-2)
- As time goes by – interest less onerous in real terms (0-2)

**Disadvantages (max 3)**

- Creditor (0-2)
- Interest must be paid (1) no matter what level of profit or loss (1)
- If interest unpaid (1), may result in liquidation (1)

max 4 marks

max 2 marks

**Conclusion (1) plus (1) for development**

Overall max 9 marks

## QUALITY OF WRITTEN COMMUNICATION

After the candidate's script has been marked, the work should be assessed for the Quality of Written Communication, using the following criteria.

### Marks

- 0** Accounts and financial statements are unclear and poorly presented.  
There is little or no attempt to show workings or calculations.  
Descriptions and explanations lack clarity and structure.  
There is very limited use of specialist vocabulary.  
Answers may be legible but only with difficulty.  
Errors in spelling, punctuation and grammar are such that meaning is unclear.
- 1-2** There is some attempt to present accounts and financial statements in an appropriate format.  
Workings are missing or are not clearly linked to the answers.  
Descriptions and explanations are understandable but they lack a logical structure.  
There is some use of specialist vocabulary but this is not always applied appropriately.  
In most cases answers are legible, but errors in spelling, punctuation and grammar are such that meaning may be unclear.
- 3** Accounts and financial statements are generally well presented but there are a few errors.  
Workings are shown and there is some attempt to link them to the relevant account(s).  
Descriptions and explanations are usually clearly expressed but there are some weaknesses in the logical structure. There is a good range of specialist vocabulary which is used with facility.  
Answers are legible. Spelling is generally accurate and the standard conventions of punctuation and grammar are usually followed.
- 4** Accounts and financial statements are well organised and clearly presented.  
Workings are clearly shown and easy to follow. Descriptions and explanations are clearly expressed.  
Arguments are logically structured. There is wide use of specialist vocabulary which is used relevantly and precisely.  
Answers are clearly written and legible. Spelling is accurate and the standard conventions of punctuation and grammar are followed so that meaning is clear.